

February 8, 2018

The City Council of the City of Idaho Falls met in Special Meeting (Idaho Falls Power Board), Thursday, February 8, 2018, at Idaho Falls Power Conference Room, 140 S. Capital, Idaho Falls, Idaho at 1:00 p.m.

Call to Order and Roll Call:

There were present:

Mayor Rebecca L. Noah Casper
Councilmember Thomas Hally
Councilmember Shelly Smede
Councilmember Michelle Ziel-Dingman
Councilmember Jim Freeman (departed at 2:53 p.m.)
Councilmember Jim Francis
Councilmember John B. Radford (by telephone until 4:41 p.m.)

Also present:

Jackie Flowers, Idaho Falls Power Director
Bear Prairie, Idaho Falls Power Assistant Manager
Randy Fife, City Attorney
Kathy Hampton, City Clerk (departed at 1:10 p.m.)
Hollie Pettingill, Deputy City Clerk

Mayor Casper called the meeting to order at 1:00 p.m.

Discussion occurred regarding the possibility of moving Power Board meeting to a different time to help accommodate the Council's schedule. A survey will be distributed.

Presentation of Year End Report for FY2017 (Per Financial Stability and Creditworthiness Policy):

Director Flowers presented the Financial Stability and Creditworthiness Policy that was adopted in February 2016. This will be the second time the annual report has been done from this document. The policy covers eight (8) requirements that will be reviewed on an annual basis. Director Flowers and Mr. Prairie reviewed the following with general discussion throughout:

1. Finance: Target Liquidity & Coverage -

The results of operation and financial condition of Idaho Falls Power (IFP), including a report on the liquidity and coverage requirements targeted fund balances established by this policy.

Year-end analysis shows policy calls for minimum of 250 days cash on hand and we have 347. Exceeding requirements of cash on hand targets.

Target Fund Balances

- Policy set initial targets then they are provided in our Cost of Service (COS) which drives our budget process.
 - \$10 Million – Electric Light Fund
 - \$20 Million – Rate Stabilization Fund
 - Fund that allows calculated risk. It allows IFP essentially to self-insure rather than buy higher price electricity without the risk.
 - Clean Audit reports are critical to creditworthiness and counterparty risk, accurate financial data is critical.
 - \$17 Million – Capital Improvement Fund (CIF) initially established as the Transmission and Distribution (T&D) Fund.
 - Adjusts to the target balance for CIF shall be provided for in the annual budget.
 - Capital Fund drawdown was because of planned projects:
 - Commercial customer growth for \$2 Million
 - North Loop \$700,000

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- 15th Street Substation \$1.5 Million
- \$2.5 Million – Weatherization Fund

Fund Balances – October 2017

Power supply costs trigger Power Cost Adjustment (PCA) mechanism: Each utility account bill has a standard customer charge, kilowatt hour rate and the PCA (depending upon the year), which in October 2017 became a credit back to customers, projected more than \$1.3 Million credit back in 2018.

Projected Cost of Service (COS): 2016 vs. actual fund balances = Poor retail and wholesale revenue conditions so there was no PCA credit for FY17 due to no surplus revenue above cost of service.

2017 was opposite of 2016 – Good winter loads and market.

PCA for 2018 is \$1.38 million.

Total Fund Balances: In 2016, COS projected \$42 Million and fund balances went down. In 2017, COS projected \$40 Million, came in at \$43 Million in total fund balances. Cold winter helps sales and good wholesale market.

2016 COS for 2017 Rates: July 2016 looking at 2017 rates. Forecast the amount of funds it draws on. Manage Municipal Equipment Replacement Fund (MERF) in rates and COS. Typically underspend on capital projects that is why COS projects more of a fund drawdown than we would do typically. This is considered when setting rates and fund targets.

Power Cost Adjustment (PCA) Provision. Lesser of the following:

- A. Rate Stabilization Fund balance minus benchmark (\$20 Million)
 - B. Above \$20 Million - Net Power Supply Budget minus Net Power Supply Actual
 - C. Power Supply Revenue Budget minus Power Supply Revenue Actual
- Multiplied by 75% = PCA

Required to give quarterly reports. Q1 and Q2 will be out in April. Typically, do a quick overview and get a sense of how revenues have come in for the quarter. Fiber Revenue is in its own category.

Year to Date vs. Budgeted amount for Revenue	Year to Date \$54 Million	Budgeted amount \$47 Million
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Fiber Quarterly Report: overall revenues vs. expenses. The revenues have come in greater than the expenses. Discussion about setting up reserve fund to save money for reinvestment into that system. We currently have nine (9) service providers for Fiber Network. More discussion about Fiber in April.

Payment in Lieu of Taxes (PILOT): Director Flowers briefly described. Council adopted a policy and we benchmark against American Public Power Association (APPA) they put data out every two (2) years. We count all cash and in-kind. Council eliminated in-kind contributions, Council wants formula set to know what the cash transfer is, as they want to set the spending priorities through the budget process. Benchmark Revenue Size Class is \$50 – \$100 Million and Third Quartile at 6.6%.

Director Flowers discussed transfer payments to cover various costs associated with general fund support services. Will bring in formulas for the new budget year.

Transfers	Budget	Actual
Municipal Services: IT	\$798,101	\$751,365
Accounting & Auditing	\$68,000	\$83,683
Municipal Services Billing /Collection	\$1,068,416	\$1,037,361

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City General & Administration	\$924,895	\$1,035,959
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Rocky Mountain Power (RMP) Customer Exchange/Service Territory: State law defines the Electric Service Stability Act (ESSA) which governs service territories and how utilities with common service territory boundaries or overlapping areas work together. Utilities cannot pirate a customer from another utility. New agreement went into effect in October with a five (5) year term with automatic five (5) year renewal. The agreement defines City service territory as the City limits and moves as the City grows. It's an "all or nothing and as-is where-is," five (5) year look back window, to identify services subject to buyout. Director Flowers discussed the Prestwich Estates exchange. This is pending "all or nothing" test. There are four (4) other pending exchange requests.

Update on Continuation Service Territory and Load Changes: Mr. Prairie described the IFP Growth vs. Load Growth Chart. From 2003 to 2008 total number of customers increased but in 2008, the load started declining. This is because of the recession and energy efficiency in his view. Still building more homes but consuming less electricity per home. When you tie this back into retail revenue, if you sell less kilowatt-hour (KWh) then you need to raise the price per KWh to achieve the same revenue requirement to fund operations. From 2008 to 2017, customer growth is 6.36% and loads have declined 4.04%. 2017 had good loads due to cold winter and decent summer.

Mr. Prairie discussed Peak Load from 2010 to current. Peak loads per month are actually dropping at a faster rate than our total load because of efficiency and weatherization. Good to flatten load profile. Summertime peak is growing because of new homes being built with air conditioning becoming a standard installation.

2. Power Supply (PS) and Costs Quarter 4 and Annual review -

Power supply and costs under the Bonneville Power Sales Agreement and other power supply agreements, and a summary of any wholesale power sales or purchase transactions.

- Expenses were -4% from prior year
- Total Revenue for fiscal year \$5.3 Million
- \$-1,871,906 PS Net cost under COS Projection
- \$-6,037,583 PS Net cost under budget
- Big gains were from revenue = good water year and decent market prices during summer months

Net Power Supply Costs History and Bonneville Power Administration (BPA) Costs: Year 2016 was a bad year water wise and wholesale price wise, the Net Power Supply costs jump up high. Drop in 2017 BPA costs reflect bringing the bulbs back to load and lower load forecast. Rising Net PS costs reflect poor wholesale market prices.

Forward Net Power Supply Costs: This is where we pull in different water scenarios. 2018 drop from period report due to hedges and water year being above average. The step increases in two (2) year increments represent the BPA rate increase assumptions. 1934 lowest water year on record. BPA does rate cases every two (2) years which is why we see the 8% rate increase for BPA each year.

Annual MWh Position: Heavy Load and Light Load with average water. Heavy load is from 7 a.m. to 10 p.m. First six (6) hours and last two (2) hours of the day are the light load. This is how wholesale commodity is traded in the market place. Historically heavy load use to be more than light load. Starting to see solar power used throughout the day making heavy load not so valuable. Peak in evening for a few hours when solar is off and heavy load is used. Average Annual Position by Quarter: dropped in 2018, sold off surplus energy. Position by Quarter (Q), Q2 = spring time, loads are down and all hydro's are running. Q3 = summer, loads still down. Q1 & Q4 = winter months flat on heavy load hours.

Forward Hedges: Many transactions are with Shell Energy. Deal with Shell to sell energy and in the event we need back they will schedule that energy back to the City at current market price so it can be placed on our BPA transmission rights. Standard volume in market place is 25 megawatt (MW).

3. Finance/Rates -

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A review of the sufficiency of the current rates for System services, and a report on the operation of the power cost adjustment provision.

Roughly saying Cost of Service Adjustment (COSA) vs. Actuals are in line and accurately covering costs for utility.

4. Power Supply -

The operating results and forecasts for the Bulb Turbine Project and the Gem State Project.

Mr. Prairie reviewed performance from 2010 - 2017. Performance is based on water conditions and some years are higher than average due to drought years.

5. Operation -

The operating condition of the principal facilities of the System, as well as completed and projected renewals, replacements and capital additions and improvements.

Everything looks good from the operations perspective. Mr. Prairie stated insurance was increased in 2015 to match plant values and risks, with updates occurring on an annual basis. There was a \$30 Million total cap. Reworked two (2) years ago looking at true assets of plants and now have \$100 Million for Flood and Earthquake, \$100 Million per plant. Added secondary underwriters for the addition insurance. Idaho Counties Risk Management Program (ICRMP) covers the substations, wires and balance of plant.

Capital Improvement Plan (CIP): Ten (10) year plan and updated annually in advance of budget process. IFP depreciated value is 58% (reduced from 59% 1 year ago). Continue to invest in infrastructure. Director Flowers briefly reviewed IPF CIP 2017 Gem State Project, T&D, Operations, A&G and Fiber.

Line Extension: In 2016, Council defined the line extension waiver process. Budget Projection - \$400,000 FY 2017 collected \$606,780, waived \$27,950.

Transmission Expansion: Will proceed to build 60% of planned expansion including new substation. RMP negotiations continue for joint project with shared capacity 51 RMP/49 IFP. Memorandum of Understanding (MOU) commits both utilities to a March 30 agreement date.

Anticipate we will finance the project through Utah Associated Municipal Power Systems (UAMPS) as a transmission services project:

- UAMPS Project Agreement to be negotiated this year
- RMP coordination
- Estimated \$22 Million project

6. Operation -

The operation staffing level for IFP, any need for additional personnel, and a review of compensation levels and benchmarks for management and key employees.

Director Flowers reviewed high demand jobs, stating skilled tradesman rank as highest demand. She stated 40% of the trade workforce will retire in the next seven (7) years. Potential for 15% retirement in the next five (5) years. She discussed an organizational chart with categories and plans to transition utility employees to a utility compensation schedule based on market value in progress with the Human Resources Department.

Cohesive Utility Compensation Strategy includes:

Utility Scale – one (1) scale for the department based on the market

Council authorized Strategic Plan and authorized implementation in December 2017 (pending Cayenta timing)

-Job Specific Market Index – three (3) year compensation study

-Labor index – cost of labor based on defined market index

-Pay for Performance – use same performance tool as City, review annually

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Public Utility Market Based Compensation Strategy was presented to Council from Human Resources in December 2017. Shows ranking and how it would be weighted for showing the market compensation.

Director Flowers reviewed Generation/Hydro Mechanics and T&D as well as mechanic and line crew risks for turnover and potential gaps in leadership.

Reviewing idea of fiber expansion, time line, and overlap of apprentice program with potential to build a general labor pool as a pre-cursor to the apprentice program. This transition would allow us to start staff in fiber expansion and allow them to become familiar in how IFP works. Laborers could feed into an apprentice program allowing us to double duty those staff and dual purpose the line crews.

Power Supply Bench Depth: Mr. Prairie stated that the Council's decision to remain with Slice product for the duration of the BPA Power Sales Contract led to the need to mitigate risk associated with turnover in key staff positions. The contingency plan is to use The Energy Authority (TEA) to lease software and have now hired one (1) dispatcher to operate. His trading actions alone bring in \$50,000 to \$120,000 a month in certain operating conditions. Continue to have an enhanced contract with TEA to help him manage the Slice product. IFP budgeted \$1.3 Million in this year's budget in the event IFP had to rely fully on TEA services for operations on the slice product in the event of key staff leaving.

7. Operation –

IFP's compliance with applicable legal, regulatory and contractual requirements.

Dam License (through Federal Energy Regulatory Commission (FERC)) and Reliability Standards were reviewed. It was noted that IFP is at the ten (10) year mark for relicensing and plan to obtain through professional services an engineer to help map out relicensing. 2017 was midpoint for reliability standard audits, the utility is conducting self-audits. Cybersecurity standards are an ever growing area of focus with continued annual staff training. New version of Critical Infrastructure Protection (CIP) with 11 standards and 50 requirements that Director Flowers has to sign off on each year including reviewing all areas that have increased firewall/security measures both in cybersecurity and physically.

Peer to Peer Safety Initiative: Working hard to improve safety culture, practices and awareness. Rubber glove training that got approved will happen in May. Refresh and improve entire yard on safety (gloves & sleeves while in yard). Good progress is being made.

Workers Comp Claims: Last fiscal year, three (3) comp claims in utilities vs. the City's 126 claims. IFP claims cost just shy of \$60,000 vs. City's \$911,000.

FY2018 Budget:

FY2018 Budget - no discussion at this time.

Power Supply:

Cost of Service:

It was moved by Councilmember Jim Francis, seconded by Councilmember Dingman to postpone Power Supply and Cost of Service discussion due to time constraints. Roll call as follows: Aye – Councilmembers Dingman, Radford, Francis, Smede, Hally. Nay – none. Motion carried.

Carbon Free Power Project (CFPP):

Director Flowers reviewed the CFPP pursued by UAMPS. The project has three (3) legs: Energy Efficiency, Distributed Generation, and Small Modular Reactor (SMR). Coal plants are nearing the end of their life cycle and being replaced with carbon-free baseload supply. Director Flowers went through the preliminary CFPP project schedule. UAMPS got the Site Use Permit from Idaho National Laboratory (INL) for approval to locate on the INL which will terminate unless extended or terminated by February 16, 2125. The 99-year term commences upon commercial operation date of the first nuclear module to decommissioning. The project is discussing needed seismic

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reports and studies with INL and working to assess and acquire water rights. UAMPS is currently soliciting members to complete Phase 1, which is the site selection, and prepare the Nuclear Regulatory Commission (NRC) application with off-ramps associated with progressing to construction. Satellite view of three (3) proposed construction sites where shown. PacifiCorp has the project on the radar for transmission planning but have not started any studies yet.

Mayor Casper mentioned that on the GAM chart the Fluor logo shown is Fluor acting as owner of NuScale not Fluor acting as Site Cleanup Contractor.

A Development Agreement between UAMPS, Fluor and NuScale with the primary intent to buy down the risk to UAMPS members of first in-kind technology, cost, and the cost uncertainty. They have engineered estimates that get refined as they progress through the design certification process. Refined estimates support the ability to maintain the target cost of \$65/megawatt-hour (MWH), which is required in the economic competitiveness test as it is the ultimate off-ramp for UAMPS, with 100% of Phase 1 reimbursable.

Director Flowers briefly went over Waste Management: Nuclear fuel produced in the last 40 years if stacked end to end in a football field, would cover the field to a depth of less than 25 feet. Coal ash stacked end to end would be 300 miles high.

Power Sales Contracts (PSC's) for the CFPP are similar to the power sales contracts for UAMPS' other generating projects. The PSCs have been drafted. We will be assigned an entitlement share based on our expressed interest in 10 MW. Director Flowers reviewed the basic contract terms that support project operations and financing, with complete and comprehensive decision-making authority over the project and actions to be taken by UAMPS. The target date of PSCs April 1, 2018. IFP needs to schedule CFPP meeting, Mayor's Office will send out Survey Monkey with potential dates to determine when everyone can meet.

Mayor Casper discussed that Dana Kirkham would also like to meet with representatives from UAMPS and NuScale in a regional setting, hopes are that this can be coordinated with the IFP meeting to make scheduling easier with UAMPS.

Mr. Prairie discussed SMR pricing with 10 MW and 15 MW. The \$65 SMR cost and the % impact on rates (10MW SMR) for years 2025 – 2028.

There being no further business it was moved by Councilmember Hally, seconded by Councilmember Dingman, to adjourn the meeting at 5:00 p.m. which motion passed following a unanimous vote.

s/ Hollie Pettingill
DEPUTY CITY CLERK

s/ Rebecca L. Noah Casper
MAYOR